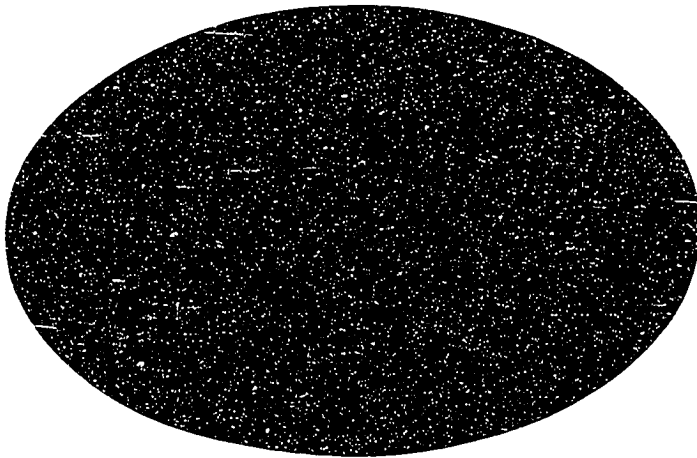




“Product Integrity” is our assurance to the consumer that Geo. A. Hormel & Company places a major and continual emphasis on the safety, quality and nutritive value of every food product we produce.



As evidenced here and on the front cover, this 1977 Annual Report to Shareholders emphasizes product integrity — a concept that has enabled Geo. A. Hormel & Company to play a strong role in satisfying the food demands of consumers for more than eight decades.

Robert A. Slavik, himself a talented member of the Company's management team, his wife, Toni, and their three children — Alan, 3, and twin daughters, Barbara and Christina, 7 — all pictured below, are representative of the millions of American families that have looked to Hormel for food products offering quality and reliability, versatility and practicality.



It is product integrity, we believe, that has contributed greatly to the excellent results of fiscal 1977. Record sales and record earnings, along with continued improvement in the overall financial strength of the Company, provide a sound basis for the confidence we have in our future growth.

The pages to follow give particular attention to the many factors which support this confidence. A review of past year's marketing programs, a summary of current and projected expenditures, and a report of Company efforts directed to meeting consumer interests are all included.

As outlined in this Report, it is our belief that we have the key ingredients — the technological strength, the products, the marketing and manufacturing capabilities, and the people — needed to sustain healthy growth in the future. We have, too, the thoughtfully-established objectives, the planning and built-in flexibility, and the seriousness of purpose that is so essential for the Company's continued success in this constantly-changing world.

The Company's 86 years of history, from an abandoned creamery on the Red Cedar River in Austin, Minn., to a billion-dollar industrial enterprise, has had one common concept — product integrity. I can assure Hormel shareholders that in everything we do, your management, directors and employees will continue to honor — and follow — that long-standing tradition.

2 of Walter

"Product Integrity" is our assurance to the consumer that Geo. A. Hormel & Company places a major and continual emphasis on the safety, quality and nutritive value of every food product we produce.

The Year in Review

By every measure, Geo. A. Hormel & Company's performance in 1977 was the best in its history.

The Company enjoyed record sales, record earnings and record earnings per share. This, along with the highest working capital, net worth and book value per share, gives a clear picture of a year in which substantial progress and growth was achieved.

Record Sales

Operational highlights include strong sales gains in each of the Company's major food lines. Sales, after returns and allowances, set a new record at \$1,106,274,000, an increase of one per cent. Most of that increase can be attributed to volume gains, rather than price increases, of the Company's major categories of processed, branded products.

Net Earnings

Net earnings in 1977 were the highest in the Company's history — amounting to \$21,951,000. This is a gain of \$7.2 million or 49 per cent over fiscal 1976 earnings of \$14,717,000. In terms of return on the dollar of sales, net income was 2.0 cents in 1977 and 1.3 cents in 1976.

Earnings per common share increased 49 per cent from \$3.06 to \$4.57 per common share.

Historically, the Company's investment-for-growth plans have

called for expansion or improvement of facilities. During the past six years, the level of this spending increased from \$11.6 million in 1971 to more than \$22.8 million in 1976.

Capital investments — additions to property, plant and equipment — amounted to \$13,886,000 in fiscal 1977. Other than completion of the Company's Knoxville, Iowa, dry sausage manufacturing plant, significant projects completed or underway included start-up of construction of the Davenport, Iowa, gelatin plant and the Fresno, Calif., distribution plant, and the purchase of land and buildings in Stockton, Calif., for grocery products canning.

While this level of expenditure was considerably lower than that of 1976, it provided the essential elements for continued long-range growth.

Current plans call for expenditures of approximately \$20,000,000 in fiscal 1978.

Depreciation for the fiscal year was \$11,312,000, an increase of \$615,000 over 1976.

Cash Dividends

Cash dividends paid on common stock outstanding were increased in February, 1977, from \$1 to \$1.12 per share. Dividends declared during the year amounted to \$5,379,649.

Dividends have been paid to stockholders for 49 consecutive

years with increases in the dividend rate for the past nine years.

Pension Trusts

The Company's provision for current and past services under the Employee Pension Trusts amounted to \$12,370,000 for the year.

Past service costs are amortized over a period of 30 years from the date of inception or date of amendment of the plans.

Stockholders' Investment

Stockholders' investment was \$153,363,000 on October 29, 1977, an increase of \$16,571,000 over the prior year. This equates to a book value of \$31.93 per share of common stock outstanding.

Employees and Organization

At year-end, 8,722 men and women were working together in Hormel plants and offices. Equitable wages and comprehensive benefits help the Company attract and keep talented people.

Wages and salaries totaled \$156,201,000 during fiscal 1977. Benefits, including hospital and medical insurance, dental and optical care, vacations and sick leave, pensions and life insurance, totaled \$35,519,000.

The loyalty and dedication to the business by all employees contributed significantly to the continued customer acceptance of our products.

Throughout last year and the early part of this year, the Company and Local P-9, AMCBWNA at the Austin (Minn.) plant have been engaged in discussions aimed at adjusting the terms and conditions of employment into a competitive position with the newer plants in the industry. On July 27, the Union rejected the Company proposal. Steps have been taken to adjust the employment level at this plant to conform with the restricted capacities of this older facility.

All of the Company's operating units are responsible for implementing equal opportunity programs. The Hormel policy and practice has been and continues to be to recruit and employ personnel without regard to race, creed, sex, age or national origin, and similarly to compensate and afford opportunities for advancement equally to all employees.

Long and Short-term Debt

Interest expense was \$2,745,557, down \$1,428,627 from the prior year. Lower levels of short-term debt at favorable interest rates accounted for the difference.

Livestock Projections

Looking ahead, the currently favorable availability of livestock is expected to continue throughout fiscal 1978. Industry hog supplies are expected to be less than last year for the first quarter, but will increase during the last three quarters so that for the entire year about 10 per cent more will be available.

Liquidation of cow herds is slow-

ing due to recovery of drought-damaged pastures and replacement. Cattle supplies should then continue to be available at somewhat less than satisfactory levels during 1978.

Discontinuance of the Austin, Minn., and Fremont, Neb., beef operations in 1977 is expected to provide improved operating

results for the Company's Beef Division in 1978.

The combination of a steady, adequate supply of raw materials and continued strong consumer demand, resulting in all plants being operated at near optimum efficiency, is an important factor in the Company repeating in 1978 its accomplishments of the past year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

COMPARISON OF FISCAL 1977 TO FISCAL 1976

Sales and gross earnings increased to record highs in 1977. Sales were up 1.0%, while earnings increased 49.2%. The increased earnings resulted from a relatively lower Cost of Goods Sold which generally accompanies increased volume. Volume increased 7.7% over 1976. Live hogs, the principal component in Cost of Goods Sold, were available at lower prices as supplies exceeded those of 1976. Facilities were operated at near optimum levels, including our new pork processing plant at Ottumwa, Iowa.

Operating costs increased due to higher sales volume and inflation. Advertising costs increased 23.6% in 1977 as part of the Company's program to increase sales of branded product. Research and Development costs increased 28.1% in 1977, reflecting the Company's increased emphasis on development of new high-quality products.

Interest expense decreased in 1977 due to minimum short-term borrowings at lower average interest rates.

The effective income tax rate for 1977 was 48.1%, compared to 43.7% for 1976. The change in effective rates reflects the relative effect of varying amounts of investment credit, which is recorded on the flow-through method.

COMPARISON OF FISCAL 1976 TO FISCAL 1975

The increase in hog supplies during the final quarter of 1976 and increased sales tonnage, plus an extra week, making 1976 a 53-week year, were all factors that collectively contributed to making 1976 the first year in the Company history when sales exceeded \$1 billion.

The 1976 increase in earnings was due to aggressive sales promotion and an increased supply of hogs which enabled the Company to utilize its facilities on a more economical basis.

Advertising costs increased to \$12,590,983 in 1976, compared to \$8,556,422 in 1975.

Interest costs increased in 1976 because the long-term debt was outstanding for the entire year. Income taxes in 1976 increased as a result of increased earnings.

"Product Integrity" is our assurance to the consumer that Geo. A. Hormel & Company places a major and continual emphasis on the safety, quality and nutritive value of every food product we produce

To Make the Best

From the very beginning, 86 years ago, Hormel has specialized in processed meats — sausages, hams, wieners, bacon and luncheon meats — and, later, a full line of grocery products — stews, chilis, hash and meat spreads. Combined with a line of fresh meats for wholesale and retail customers and a variety of vending, chopped and formed and frozen entree products for the food service trade, Hormel has become one of the nation's best known food processing companies.

How Has This Happened?

Over the years, the Company's growth has been based on a number of strengths, among

them modern processing and packaging techniques, skilled and experienced employees, product innovation, consumer franchise and marketing know-how. Although these methods and tools of the business have changed over the years, the desire and determination to produce nothing but the very best has not altered.

Long-established basic principles, setting high standards of freshness and flavor, nutrition and wholesomeness, have earned for the Company a reputation of reliability, consistency and safety; in effect, product integrity. It is this translating of product integrity into practical reality that has kept the Company

in the forefront of the food processing industry.

Product Integrity

Hormel plants are in full compliance with federal inspection regulations and are supervised by U.S. Department of Agriculture meat inspectors. But the Company does not depend upon Federal standards alone. The guarding of the Company's product integrity standards is, in large part, the responsibility of the Quality and Process Control Department, Research & Development Division, and the "think quality" attitude and determination of all employees.

Specially-trained, highly-skilled Quality Control personnel are spread throughout the network of Company plants. These "inspectors," other laboratory personnel, production management supervisors and on-the-line employees, watch every step in the manufacture of product — from the time ingredients are received to the time cases of product are shipped.

Both laboratory tests and in-plant tests, using subjective as well as objective analytical methods, are used to check each phase of production. Technicians, food technologists, chemists and engineers observe handling and storage of ingredients; blending and cooking of products; plant sanitation; filling, labeling, packaging and casing of product, and testing and storing of finished product.

Continuous laboratory tests, using statistically-controlled samples from production lines, are



Careful inspection of every step of the manufacturing process.



Skilled employees.

regularly analyzed for proper ingredients and composition. Tests are made on the chemical and physical characteristics of the product, including moisture, protein and fat content. Temperature readings are taken and package weights verified, taste tests are conducted, keeping qualities studied, and package and label inspections made.

Production: Quantity with Quality

In the manufacture of Cure/81 Hams, for example, a set of formulas and procedures guide personnel in every step. Company plants, wherever located, use the same standards, the same formulas.

Test requirements are severe. Pre-established standards list a host of possible defects, any one of which can cause immediate rejection of the product at any stage of manufacture. A uniform fat cover is permitted, for example, but must not exceed rigid Company specifications pertaining to thickness and surface area.

In the boning operation, procedures are closely-controlled to minimize damage to the meat.



A Cure/81 Ham quality check.

Knife cuts across the muscle grain are unacceptable if greater than the established criteria, and any hams containing foreign materials resulting from the bone removal are quickly taken from production lines.

Although regular cutting tests, cookery tests and tastings of production lot samples serve as quality checks on finished products, daily audits conducted throughout the Cure/81 Ham

process provide further assurances that all specifications and standards are followed.

DiLusso Genoa

"DiLusso," properly translated from the Italian language, means "DeLuxe." Perhaps the Company's most famous dry sausage item, it is a product which clearly reflects skill in preparation and concerted efforts at product integrity.

It begins with quality control inspections of incoming meat supplies and ingredients. Lab technicians conduct chemical and microbiological analyses, studying composition, temperature and fat content.

Painstaking care is taken in the selection and purchase of imported spices and seasonings. One such ingredient, Paprika, is purchased from Spanish growers only because its color value is superior to that received elsewhere.

These flavorful condiments are so important in the manufacture of dry sausage and other pro-



In-plant tests of DiLusso Genoa.

cessed meat products that Hormel "spice labs" are maintained for the sole purpose of achieving greater purity and uniformity of spice formulations.

In DiLusso Genoa, electronically-operated machines control the fineness of chop to insure that the sausage mixture is ground to the proper degree of coarseness. Even the selection of casings is important in gaining product integrity because rate and degree of drying helps determine ultimate flavor.



Temperature, humidity checks.

An intricate process of curing and drying, requiring anywhere from one to three months, attests to the Company's sensitivity to authenticity and sausage-making artistry. The gentle movement of air over sausage occurs in thermostatically-controlled "aging" rooms where humidity, temperature and air circulation are regulated. These controls help evaporate moisture, concentrate flavor and increase important keeping qualities.

"String-roping" or cording, a practice adopted hundreds of years ago, is still used by the Hormel Company. Many people believe that "roping" has no particular function other than serving tradition, but Hormel applies a series of 10 hitch cords to assure compaction of the meat and general conformation of the product.



Comparison cutting tests conducted regularly.

As a further protection of quality, production line samples are analyzed regularly for microbiological stability characteristics, nutritional value and fermentation qualities. Comparison cutting tests are also conducted with special attention directed to product consistency in color, dryness, texture and appearance.

The end result of these tests is to insure compliance with Company standards and to make certain that quality remains the most important product.

PHSA Program

The Beloit, Wis., plant, supplier of many of the Company's canned meat items, operates with all other Grocery Products facilities under a corporate plan titled the "Grocery Products Public Health Safety Assurance Program." This long-standing program deals directly with the manufacturing practices developed to insure complete public safety in Company food products.

Included are procedures for inspecting and analyzing of all in-



Laboratory testing.

coming raw materials, plus strict quality control checks of all processing operations, including meat preparation, filling of containers and retorting, labeling, packaging and warehousing.

The advanced technology used at the Beloit plant to insure compliance with this far-reaching consumer protection program is evident everywhere. Microwave energy is used to temper frozen red meat, metal detectors scan fast-moving conveyor lines for metal objects of any kind, and special analyzers provide instant "read-outs" of lean/fat ratios. Weekly product sampling and product assay tests provide further guarantees

that all products are satisfying pre-determined quality standards.

At the Hormel Fine Frozen Foods plant in Oklahoma City, Okla., Microbiological and Quality Control laboratories monitor all manufacturing operations. Samples of finished product are obtained daily and chemically analyzed.

Installation of new machines is another important factor in the Company's continuous efforts to improve its modern production techniques. High speed meat patty forming machines in Oklahoma City, hydrostatic sterilizers in Beloit, Wis., Austin, Minn., and Fremont, Neb., each accepting 15 oz. containers at the rate of 400-600 cans per minute, and automatic gelatin dessert packaging lines, also in Austin, are equipped with sophisticated controls and advanced design. Each unit assures uniformity of quality while also providing maximum efficiency.

Manufacture of raw bulk gelatin and packaged gelatin desserts are tested in an "around-the-clock" monitoring program. The formulas and manufacturing procedures are followed exactly and observed continuously by production and laboratory personnel as well as automatic in-process controls.



Raw material sampling.



Swab tests of working surfaces.

Sanitation

From clean-up to check-up, production line hygiene, more commonly referred to as sanitation control, is rigidly practiced at all Hormel plants. The chief concern of the Company's sanitation program remains the same as it was years ago — the complete protection of product from contamination.

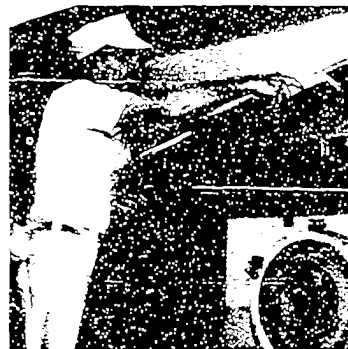
The apparent guardians of this long-standing, effective sanitation practice are the Company's Corporate Sanitation Committee, departmental and plant managers, and Clean-up Department personnel. In reality, however, sanitation has become everybody's job at Hormel and is not limited to those who have departmental or plant responsibility.

It begins with a thorough cleaning, on a daily basis and sometimes hourly, of all plant areas and equipment. Scalding hot water is sprayed through high pressure hoses onto all recently-used machines, floors, walls and ceilings. This "hose-down" is followed by scrubbing with Company-formulated detergents and sanitizers throughout all working areas, after which a thorough spray and final rinse is applied.

Frequent swab tests are taken of work surfaces for laboratory studies. The resulting analyses reveal if work areas meet all sanitation standards or if addi-



Daily "hose-downs" of equipment.



A thorough cleaning.

tional clean-up measures are required.

In Beloit, Wis., one innovation is the "clean-in-place" (CIP) system. Each operation is equipped with detergent lines which feed automatic sprays on all process kettles. Wash liquid with entrapped materials is piped off, filtered, and recirculated to save detergent.

The CIP system utilizes sophisticated controls and high pressure pumps. All lines are first flushed with water, then thoroughly washed with a detergent solution. A sanitizer is pumped through and then a clear water rinse adds the extra measure of protection.

As a guideline in evaluating the effectiveness of the Company's sanitation program, three criteria are judged following clean-up activities. This involves determining that all plant facilities and equipment are: (1)

Physically clean — free from visible soil; (2) Chemically clean — free from cleaning compounds and other chemical residues, and (3) Microbiologically clean — free from pathogenic organisms or undesirable numbers of other organisms and/or residues resulting from their growth.

While the determination of being physically clean can be made through the use of sight, touch, and smell, the other standards can be met only through sound and thorough housekeeping practices.

Standardized sanitation objectives are in effect at all Company plants. A basic element of this program is employee awareness. Lectures on personal cleanliness, contagious diseases, bacteriology, salmonella, staph and molds, as well as a discussion on the Company's sanitation program, are presented to employees.

This program is further augmented with the periodic distribution of a brochure titled "Rules of Sanitation," a pamphlet containing rules that all Company employees are expected to follow with respect to personal hygiene, personal clothing, sanitary work habits and employee traffic control.

Maintaining a good sanitation program takes a great deal of effort, but it is impossible to produce wholesome products without it. Good sanitation plays a key role in guaranteeing that extra degree of wholesomeness of Hormel products.

Consumer Accountability

In a period of growing public interest in the policies and practices of the food industry, Hormel has continued to address itself to current consumer problems, needs and desires. The many food chemicals and addi-



Hormel addresses itself to current consumer needs and desires.



Product integrity is tested daily.

tives, nutritional content, labeling and open dating are examples of consumer issues which have occupied the Company's attention and resources.

In some areas, the Company's leadership has long been established; in others, rapid progress is being made.

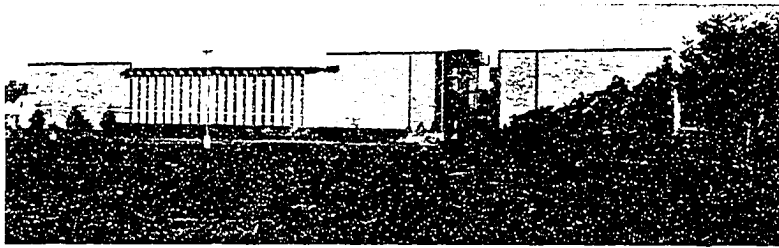
Food additives, in general, have become a topic of increasing public interest. The use of nitrates/nitrites as curing agents in processed meats has become the focal point. The concern of the U.S. Department of Agriculture (USDA), public health experts and consumer groups is

that the preservative, sodium nitrite, sometimes acts with other substances to form nitrosamines.

There is nothing new about food additives. The centuries-old use of nitrates/nitrites performs several major functions in cured meats — including producing the characteristic taste and appearance of the product and preventing a "warmed-over" flavor. Most important, it is still the only known substance that will protect against botulism, the most deadly of all food poisons.

About seven years ago, nitrosamines were found in fish products treated with nitrates and nitrites, prompting the USDA, Food and Drug Administration (FDA) and meat packing firms to check all cured meats. Tests revealed that virtually all cured meat products are completely free of nitrosamines, although minute amounts of one kind were found to form in some bacon during high temperature frying.

Since that time, Hormel, the American Meat Institute (AMI), and the meat industry in general have devoted thousands of research hours and dollars to acquire basic scientific facts about nitrosamines. Results in-



Research & Development Building in Austin, Minn.

dicating that sodium nitrate, a naturally-occurring substance in spinach, beets, radishes, celery and other vegetables, is not needed in the curing of meats. Safe quantities of sodium nitrite are definitely needed in a number of products, including bacon, ham and sausage products.

Knowing these factors, the Hormel Company has taken the following action:

- Eliminated the use of sodium nitrate except in certain fermented sausages and dry-cured products where it is still needed.
- Reduced substantially the amount of sodium nitrite in bacon to 125 parts per million — the level recommended by the A.M.I. This reduction was accompanied by an increase in the amount of sodium isoascorbate used which, when combined with the reduced amounts of sodium nitrite, blocks the formation of nitrosamines.

- Constructed a sophisticated laboratory capable of detecting nitrosamines in Hormel cured meats. This was the first such laboratory within the meat industry and is only one of a few throughout the United States.

The complexity of the testing equipment and the procedures used to discover nitrosamines has resulted in the staffing of a team of fully-qualified scientists and technicians.

Nutrition

Further evidence of the Company's unrelenting efforts towards product integrity can be found in the areas of consumer education, nutritional research and public information. The foremost example of this "consumer responsiveness" has been the development of meaningful nutritional data on major Company product lines.

This on-going program provides consumers with information on the caloric content and the amount of protein, carbohydrates and fat in Hormel products. Data on mineral composition, including calcium, sodium and iron, and important vitamin contents, niacin, riboflavin and thiamin, is also available.

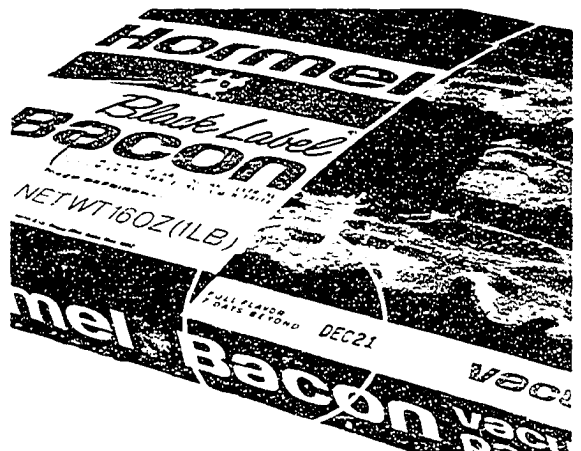
This important data, helpful in planning well-balanced and nutritionally-adequate meals, is available to consumers upon request.

For today's consumers who want still more information, Hormel stamps a "freshness code," or open date, on wieners, bacon, sliced luncheon meats and other processed meat products. This stamp serves as a control guide for the retailer, providing him with a recommended date by which the product is to be sold and still retain wholesomeness and flavor for normal home usage.

In the final analysis, the integrity of the Company's products is tested daily by millions of consumers who purchase and enjoy the wide variety of Hormel Fine Food Products. A commitment to product integrity is, and will continue to be, an integral part of the way Hormel conducts its business.



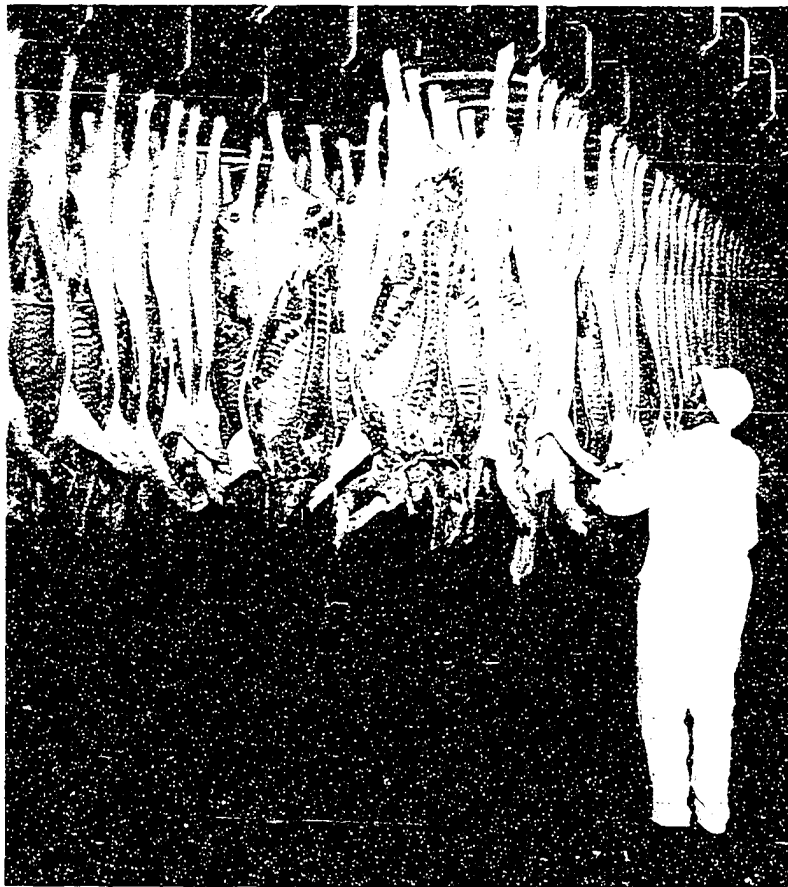
Nutritional labeling.



"Freshness code" appears on many products.

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Operations Group



A check of hog carcasses "on-the-rail."

Product integrity at Geo. A. Hormel & Company actually starts on the farm where, in fiscal 1977, hundreds of millions of dollars were paid, at fair market prices, for over 5,000,000 selected hogs and cattle. Operations of the Company's major plants, having responsibility for procurement of livestock, slaughtering, fabricating and manufacturing of processed meat products, are functions

performed by the Operations Group.

One of the most satisfying achievements of the year was the continued progress of the new Ottumwa, Iowa, hog slaughtering and processing plant. Now in its second full year of operation, the volume of Company branded products and specialty fresh pork items con-

tinues well ahead of goals established prior to construction.

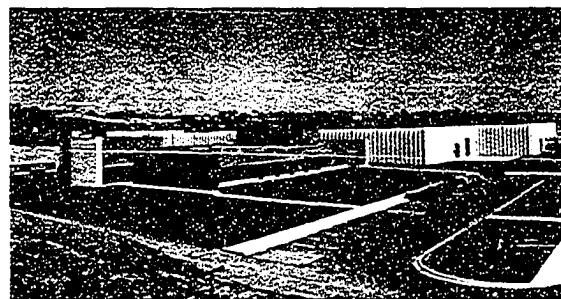
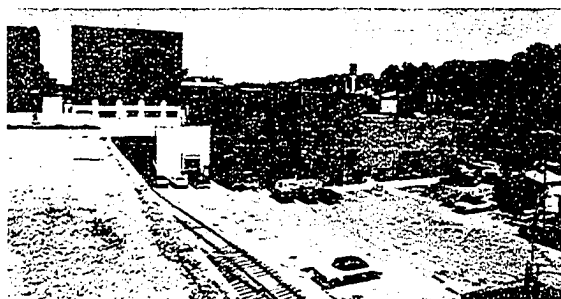
Cured, smoked and formed pork bellies, ready for slicing, are produced, as are a number of fresh pork cuts, picnics, hams and pork loins. Cure/81, Curemaster Family Hams and bone-in hams are processed. Midget Link and Little Sizzlers pork sausage and Hormel bacon, including Black Label and Layout Pack, are also produced. High standards of quality and service have already earned for this new facility the respect and confidence of meat merchandisers and buyers of Hormel retail and wholesale accounts.

The Ottumwa plant was built to handle the slaughtering and processing of 1,000,000 hogs annually, a figure considerably higher than that of the Company's Mitchell, S.D., plant and similar to that of Hormel hog slaughtering and processing plants in Fremont, Neb., and Fort Dodge, Iowa. The largest and "home" plant in Austin, Minn., has an annual capacity of 2,000,000 head.

Production Operations

Adequate pork and beef supplies available during the year enabled the Operations Group to manage the Company's slaughtering and processing plants at near optimum levels. Significant gains were recorded in both tonnage and dollar volume of processed meat products, including boneless hams, wieners and sausage items and a growing line of grocery products.

Company hog slaughtering and processing plants are located in five Midwest cities. They include (first column, top to bottom) Austin, Minn., and Fort Dodge, Iowa. In the second column, (also top to bottom) are Company plants in Fremont, Neb., Mitchell, S.D., and Ottumwa, Iowa.



These results were largely offset by operating losses in the Company's fresh meat operations in both the Pork and Beef Divisions. Despite numerous expansion and modernization programs in recent years, restricted gross margins and sharply increased operating costs resulted in the discontinuance of beef operations at Company plants in Austin, Minn., and Fremont, Neb.

Hormel continues to maintain beef processing plants in Miami, Okla., and Springfield, Mo., and has contract plants in three Midwestern cities, Huron, S.D., Scottsbluff, Neb., and Rockville, Mo.

Reinvestment in new plants, machinery and technology, con-

tinues within the Operations Group. Extensive research and design work is progressing towards the possible Company-wide installation of a new hog slaughtering system. Now being tested at the Austin, Minn., plant, this Company-created process offers improved labor, energy and space-saving efficiencies.

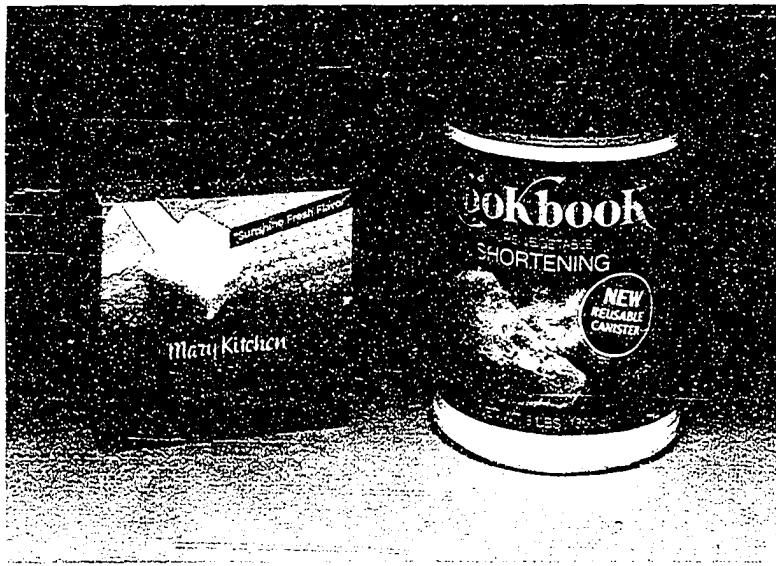
In addition to new processes and techniques, emphasis is also directed to the modernization and expansion of existing facilities and to achieving increased volume and improved earnings in the fabricated and processed meats operations. Introduction of new and improved food products, added to established products already in the marketplace, is one means of providing the

Operations Group with a planned program of growth and expansion.

New Products

Examples of two such product introductions during the past year are Mary Kitchen Margarine and Cookbook Shortening. Although both made their retail appearance in limited test markets in late 1977, these products are already showing promising growth opportunities, spurring plans to expand them into other markets by mid-1978.

The Mary Kitchen name has a well-established reputation for high quality and is recognized as a strong brand name within the food industry. This well-



Two newcomers to the retail trade.

known trademark is expected to develop high consumer interest in this premium-grade, pure vegetable oil product.

Mary Kitchen Margarine offers consumers the dietary consideration of low calorie intake while maintaining taste appeal. This all-purpose margarine, designed for baking, cooking and frying, is sold in a colorful one-pound package, four quarter-pound sticks per package.

Cookbook Shortening is another newcomer to the retail trade, introduced jointly last year with Mary Kitchen Margarine. An all-vegetable shortening previously marketed to institutional markets only — bakeries and confectionery houses, pizzerias and restaurants — Cookbook Shortening is now sold in convenient three-pound containers.

It is a unique blend of the finest domestic vegetable oils which, due to the refining process used, produces a finished product with a clear white color, smooth creamy texture and excellent stability. Cookbook Shortening offers outstanding frying and cooking results and promotes more flavor and richer breads, rolls and pastries.

The “stay-fresh” containers are also convenient when collected and used in the kitchen as a set of attractive food canisters. A unique “twist-on, twist-off” top, available in several decorative colors, permits homemakers to store their favorite foods and snacks in the reusable container with assurance they will be tightly sealed to prolong flavor and freshness.

Edible Oils

Operating “around-the-clock,” six days a week, the Company’s Austin, Minn., refinery operations had an excellent year. Contributing to these results were the strong market demands for customized oils and shortenings, margarines and edible vegetable proteins.

Edible oils at Hormel refinery operations are derived from many sources — lard, tallow, soybeans and corn. Only domestic oils are used in the production of specially-formulated shortenings and vegetable proteins and the potential applications for these products continue virtually unlimited.

Bakeries, pizzerias, confectionery houses and other processing

and food service industries use Hormel edible oils, after refining, in the manufacture of shortenings, margarine, salad and cooking oils. Sold in cubes, cans, cartons or in bulk form, Hormel is able to meet the individualized needs of its many industrial accounts.

The Operations Group also markets edible by-products, including livers, hearts, kidneys and brains, along with many lesser known inedible products, hides, animal hair, fats and tallow. Beef hides are cured and sold to tanners, pork skins are sold to tanners or processed into gelatin, hog hair is hydrolyzed, dried and sold as a feed ingredient and tallow is used in the manufacture of soap.

Other valuable by-products sold through the Company’s Industrial Products Division are the medicines and pharmaceuticals — insulin, pancreatin and pepsin — which are derived from the vital organs and glands of hogs and cattle. The efficient production and marketing of these edible and inedible by-products are important factors in defraying the costs of livestock processing, minimizing the waste which adds to the final cost of the primal meat cuts.

Improved Grading System

The Company’s continuing concern for product integrity was clearly expressed one year ago with the implementation of stricter grade standards for market hogs. The new standards are intended to produce a leaner, meatier carcass and, for the consumer, an endless variety of wholesome and nutritious meat cuts and processed meat products.

This progressive change was instituted only after observing live hogs and then evaluating the carcasses of thousands of show hogs. Company studies sup-



Loin-eye measurement.

ported the premise that additional carcass improvement could be made in the average market hog. The top grades had become rather easy to reach under the old system and, if allowed to continue, could stifle future improvement of meaty hog carcasses.

The new grading system requires that the backfat of hogs be 2/10 of an inch leaner — a standard that will challenge producers to develop a stronger, more meaningful quality hog production program. Hormel then increased the premium paid to producers marketing these hogs, a factor expected to lead to the production of better livestock.

EPCO/PCS

The Environmental Services Division of the Operations Group

was strengthened in 1977 with the consolidation of its two pollution control companies.

Environmental Pollution Control (EPCO) and Pollution Control Systems (PCS) were merged into a single business unit, centralizing all Company environmental service activities into one location in Coon Rapids, Minn. This reorganization, involving all administrative functions of engineering, purchasing, distribution, production and sales, is expected to strengthen internal efficiency and overall marketing capabilities.

As part of the reorganization, the 26,337 square foot building in Coon Rapids was extensively renovated. New equipment, custom-designed by Company engineers, was installed and existing operating lines modernized. These physical improvements and the restructuring into a single operating unit now provides the Environmental Services Division with a strong cohesive base from which to grow in the all-important pollution control field.

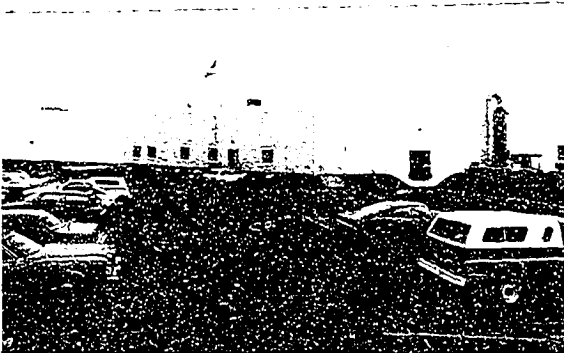
The PCS approach to environmental protection is to eliminate odors, gaseous emissions, carcinogenic hydrocarbons and other pollutants from the air. A staff of specialists provide consulting engineering studies for problem identification, design

engineering, specifications, installation supervision and start-up of air pollution control equipment.

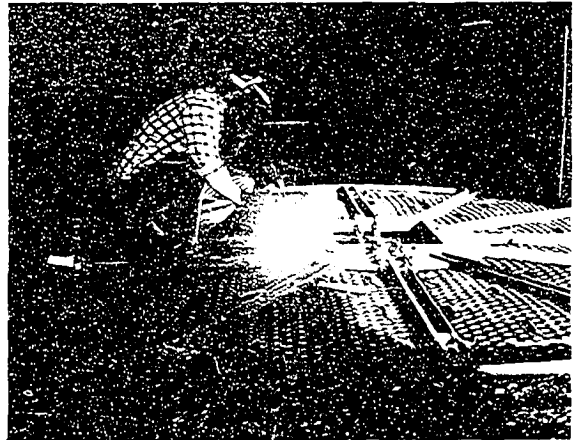
PCS has pioneered designs for the waste water treatment of hydrogen sulfide odors, foundry odors and odors from thermal or "flash" drying of foods. Air pollution control systems have been designed for Fiat in Italy and in Canada and, closer to home, for waste treatment plants in Miami-Dade County and in South St. Paul, Minn. Engineering services and equipment installations have also been developed for other food processors, sewage treatment plants, steel and mining industries, chemical and petrochemical firms, paint and automotive plants.

The other Environmental Services Division unit, EPCO, is furthering the advancement of a process known as the Rotating Biological Surface system.

It is an advanced process that offers increased performance, reduced operating expenses and low energy needs. EPCO owns and operates the world's largest vacuum mold which produces high-density polyethylene discs of uniform dimensions. These discs can be adapted to handle the organic waste loads of municipal and industrial users, large or small.



EPCO and PCS plant in Coon Rapids, Minn.



Manufacture of polyethylene discs.

"Product Integrity" is our assurance to the consumer that Geo. A. Hormel & Company places a major and continual emphasis on the safety, quality and nutritive value of every food product we produce.

Meat Products Group

The Meat Products Group continues to meet the changing needs and demands of the marketplace with branded products that have become consumer favorites. Cure/81, Range Brand, Little Sizzlers and the 86-year-old Hormel brand name, each carrying a promise of traditional quality and craftsmanship, have contributed greatly to improved market share and product distribution.

The impetus for this performance can also be attributed to new food processing techniques, new packaging methods and equipment, and increased production capacity — all implemented during fiscal 1977. These technological advances, and the manufacturing, marketing and distribution network of the Meat Products Group, further enhanced the standards of quality and product integrity consumers have learned to associate with the Company's processed meat products line.

Cure/81 and Curemaster

With a tradition of quality and a premier brand name that is nationally advertised, the Cure/81 Ham has developed substantial gains in sales, profits and market share. Fully-cooked and uniformly lean, the Cure/81 continues to be the best selling brand in its category — a position of prominence it has enjoyed since its introduction 15 years ago.

Featuring actual testimonials from satisfied housewives, the basic theme, "...Dependability worth paying for!" appeared in year-round, full-impact advertisements and promotions. Full-page, full-color advertisements appeared regularly in women's and family national magazines.

Prime-time commercials appeared on each of the three major television networks in conjunction with proven top-rated programs and specials. These

programs were chosen for their broad appeal to adults and for the high-quality news and tasteful entertainment value they provided viewers.

Closer to home, these programs were supported by local television and newspaper advertising and by special tie-in and related product promotions. Modern merchandising programs, consisting of traffic-building and eye-appealing point-of-purchase displays, were developed to increase traffic and volume at retail food stores.

This sustained advertising and merchandising support — 15 years of month-by-month, year-round national and local advertising on television and radio, in newspaper and magazines — has made Cure/81 Ham the most popular and most often purchased boneless ham in America.

The Curemaster Family Ham



Cure/81 Ham.



Curemaster Family Ham.

reported new sales and volume levels in 1977. This boneless ham, introduced in 1970, continues to receive intensified marketing and promotional activity.

The 1½ to 2¾-pound ham is designed to reach the growing small-family market which currently comprises 83 per cent of today's homemakers. The smaller unit price and the just-right size, six to nine servings, fits both the budget and menu-planning concerns of this important group.

Consistency in product quality with a ham that's 96 per cent lean and increased advertising and promotional programs are key factors in expanding distribution into markets where already established and in penetrating new markets offering growth potential.

Range Brand Wranglers

With a substantial increase in volume reported over record

sales of 1976, Range Brand Wranglers continues to be one of the fastest-growing products within the Meat Products Group. This product, first introduced into selected test markets in 1972, has proven so popular that other companies have attempted many imitations.

Range Brand Wranglers, packaged eight to a pound, are coarsely-ground, richly-seasoned and heavily-smoked to satisfy adult tastes. Although often served in a manner similar to wieners, Wranglers enjoys wider consumer acceptance because of its added versatility as a breakfast sausage, for its use in a casserole, and as an hors d'oeuvre or appetizer.

Radio, television and newspaper advertisements have helped

each year in building a new level of sales. Heavy in-store demonstrations and promotional investments have emphasized the unique taste and appearance of this product and support the Company merchandising theme that, "Once you taste Wranglers, you'll never go back to hot dogs!"

Little Sizzlers

Improved distribution and consistent promotion and advertising activities combined to create strong market conditions for Little Sizzlers pork sausages. Increased feature support by retailers produced stronger volume per feature in nearly all markets. These factors contributed to this product achieving its first two-year back-to-back sales gain since the 1971-72 period.

Another contributor to sales improvement of Little Sizzlers pork sausages was the increase in in-store demonstrations and the enthusiastic response by the sales force and grocery trade to more television usage. This revised media program of 10-second spot television commercials, supported by radio, enabled Hormel to reach a broader spectrum of the market with greater frequency.

A new package design, featuring appetite-appealing sausage links on the front and versatile "other-than-breakfast" serving suggestions on the back, has added taste and eye appeal for greater consumer impact.



This "cowboy" appears in newspaper advertising of Range Brand Wranglers.



A Breakfast Treat.

Midget Links

One recent development which plainly symbolizes the Company's constant search for greater product integrity involves the highly-automated, continuous Midget Link process, now in operation at the Ottumwa, Iowa, plant. This complete system, from mixing of ingredients to packaging, requires only 30 minutes, turning fresh, lean pork into individually quick frozen and specially-packed one ounce pork link sausages.

Sold through retail and commercial/institutional outlets, Midget Links recorded a 12 per cent sales increase in 1977. Originally packed with two, three-pound cartons per case, Midget Links are now packaged in styrofoam trays, 16 links per one-pound tray, six trays per case.

When removed, the trays are ready for store wrapping, providing retail accounts with an important labor-saving feature. For food service operators, purveyors and jobbers, the consistent number of links per tray provides perfect portion control during preparation.

The tray-packed Midget Links can be deep-fried, grilled, pan-



Tray-packed Midget Links.

fried, broiled or baked, providing both homemakers and institutional customers with versatility in usage.

Fresno, Calif., Plant

In Fresno, Calif., construction was started in late 1977 on a new 12,000 square foot facility which will improve distribution efficiency in the east-central California area. Located on a three-acre site in the Los Palmas Business Park, the new plant will have 9,000 square feet of refrigerated warehouse and freezer space, capable of holding 400,000 pounds of refrigerated product and 250,000 pounds of frozen product. A 3,000

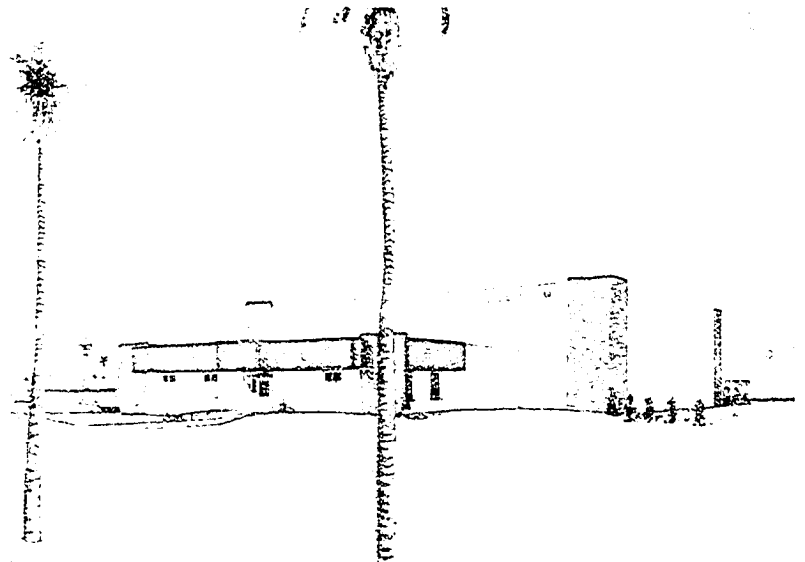
square foot office area will house sales and administrative personnel.

The new building is expected to be ready for occupancy in mid-1978.

Knoxville, Iowa, Plant

Production operations commenced last spring at the Company's new dry sausage manufacturing plant in Knoxville, Iowa. The one-story, 110,000 square foot plant has provided for substantially increased production of Hormel Hard Salami, Hormel National Salami and Burgermeister Hard Salami while affording additional manufacturing capabilities for many of the other 45 dry sausage products now produced by Hormel.

Although drying sausage is one of the oldest methods of preserving meat, the Knoxville plant, and the Algona, Iowa, plant before it, represent the latest in modern processing techniques. Microwave defrosting rather than air defrosting of raw materials, the utilization of liquid smoke rather than natural smoke, advanced materials handling techniques and



Artist's sketch of Fresno, Calif., distribution plant.



New Knoxville, Iowa, dry sausage plant.

custom-built manufacturing equipment assure production of a top-quality product.

That the Company's manufacturing plants are concerned not only with efficient production but also with aesthetic planning and design was appropriately recognized with the opening of the Knoxville plant. A State of Iowa contractor's association award cited this new facility as the "Most Outstanding Architecturally-Designed Manufacturing Plant" built in Iowa during 1977. The selection

was based on an independent evaluation of construction, design, engineering and equipment.

Multivac Packaging

Multivac packaging of Hormel Hard Salami is designed to protect product quality and flavor from the time of boxing until the moment it has been sliced for the consumer.

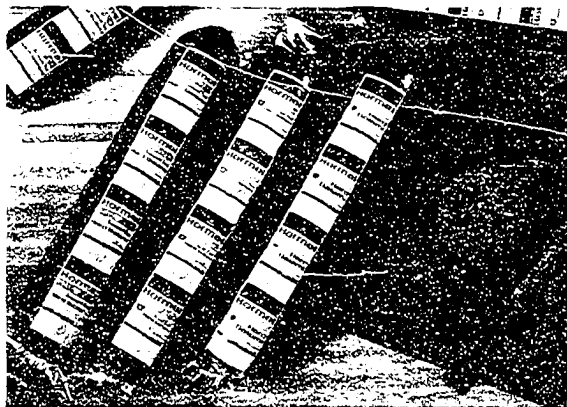
With this innovative process, packages are produced from two separate rolls of film. The

bottom web is used to make the pocket which holds the product. The top web forms the lid. A vacuum is pulled, locking in full flavor and freshness, preserving color, eliminating product shrinkage and providing longer shelf life. The attractive label or "strip" under the film provides deli operators and other self-service accounts with brand identification and an ingredient statement.

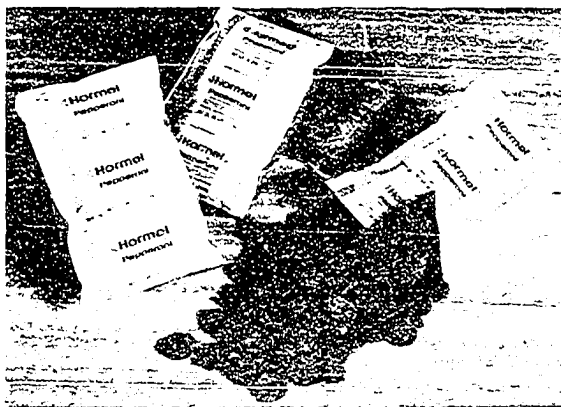
Pillow-Pack Pepperoni, marketed in a three-pound vacuum pouch, is gaining popularity among pizzerias and supermarkets having their own in-store bakeries.

Introduced in late 1977, this airtight, vacuum-sealed package retains the authentic hot flavor characteristic of the product. The pepperoni is loosely-packed in the pouch, or bag, providing institutional accounts with maximum convenience and efficiency when removing the product for quick and easy use.

Hormel caters to the wide variety of uses and local preferences for pepperoni by producing several different items. Ranging from packaged, vacuum-packed slices for the consumer to sticks of various sizes to be sliced at the delicatessen, Pillow-Pack Pepperoni is the latest example of the Company's ability to engineer quality and convenience into processed food products.



Multivac packaging of Hormel Hard Salami.



Pillow-Pack Pepperoni.

"Product Integrity" is our assurance to the consumer that Geo. A. Hormel & Company places a major and continual emphasis on the safety, quality and nutritive value of every food product we produce.

Prepared Foods Group

The Company's policy on product integrity has always been one of the principal concerns of the Prepared Foods Group. The leadership positions of SPAM Luncheon Meat, Dinty Moore Beef Stew, Mary Kitchen Roast Beef Hash and Hormel Chili, among others, is strong evidence that consumer confidence and respect has been earned with Hormel products that consistently deliver high quality and good value.

Today, as a result, the Prepared Foods Group enjoys a major presence in the domestic markets of the United States and, to an increasing extent, in foreign markets throughout the world

Growth Pattern Maintained

Benefiting from one of the most successful product introductions in the Company's history, and supported by heavy advertising and promotion, Tender Chunk Ham recorded strong market penetration and significant sales volume. This all-ham product is marketed as a tuna substitute for homemakers desiring versa-

tility in salads and casseroles, sandwiches and hors d'oeuvres.

The highly-successful regional test of Tender Chunk in 1976 led into a national launch program. Extensive advertising in national women's magazines and other print media, and advertisements on each of the three major television networks, sharply increased consumer awareness of this versatile canned meat product. The comprehensive marketing program has rapidly gained national distribution of Tender Chunk Ham.

Ham Patties

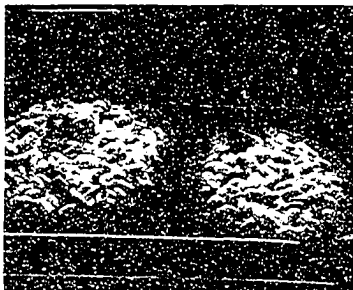
Hormel Ham Patties is another recent addition of the Company's Grocery Products Division. Over two years of consumer testing and product formulations were required before Ham Patties were introduced in 1976. Fully-cooked, smoke-flavored, and packed six to a can, consumer research panels

and actual test market studies revealed Ham Patties to have a "moist, tender texture, more ham-like flavor and better appearance."

Good consumer response in selected test markets has led to the national "roll-out" of this new product.



Hormel Ham Patties.



Tender Chunk Ham.



Ham Patties and eggs — a breakfast treat!



The growing Short Orders line.

Growing 7½-oz. Line

In 1977, three pasta items — Lasagna, Spaghetti 'n Beef and Spaghetti & Meat Balls — were added to the Company's Short Orders line. Two other items — Creamed Dried Beef and Pork Chow Mein — are scheduled for test market introduction in 1978.

The Short Orders line, now exceeding 20 different 7½-oz. products, is marketed under the Hormel, Dinty Moore and Mary Kitchen brands. The products are proving particularly popular with singles, teenagers, students and retired families desiring variety and ease of preparation. This market is estimated at approximately 80,000,000 convenience-oriented Americans.

Short Orders will once again be supported by a strong marketing program in 1978.

Frozen Foods

Improved distribution, through aggressive sales and merchandising programs and new product introductions, was the emphasis placed on the Company's Fine Frozen Foods line in 1977.

Burritos, introduced in mid-year and slated for national distribution in mid-1978, is a spicy mixture of beef and refried beans that are wrapped in a flour tortilla. Burritos are packed four to

a package, are ready-to-heat and serve, and offer housewives a Mexican dish that is a great on-the-run snack for kids or a tasty lunch or festive dinner for the family.

The Midwest, Southwest and Southeast will be initial test market areas for Hormel Tater Dogs, one of the Company's newest product introductions. Found in the frozen or refrigerated meat section of supermarkets, Tater Dogs are a delicious combination of Hormel wieners wrapped in a golden potato batter. This feature distinguishes Tater Dogs from the more traditional corn meal-wrapped Corn Dogs. Tater Dogs are sold four to a package.

Other products marketed through the grocers' frozen food cases include Lasagna, Corned Beef 'n Cabbage, Breaded Beef, Pork and Veal Steaks and Char Beef Steaks and Patties.



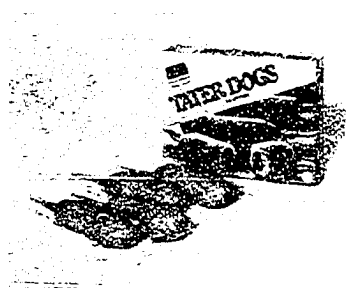
New Hormel product.

Food Technology

As food technology advances, so does the Company's effort directed toward product integrity. New processes and new methods of packaging provide additional opportunities to further improve the flavor, taste and keeping qualities of established products. Recent examples are the 1½-lb. Hormel Ham, 1½-lb. Dinty Moore Beef Stew and the 7½-oz. Short Orders line.

The 1½-lb. Hams are now being produced by an automated vacuum-tumbling and curing machine that insures efficient and equal processing of all hams and improves protein yield. Uniformity of quality, including improved texture and tenderness and retention of flavor, are clearly other important consumer advantages.

Containers which consider the needs of food retailers as well as consumers are now used in the production of 1½-lb. Dinty Moore Beef Stew and 7½-oz. Short Orders. This container is formed from tin-free steel and is recyclable, safeguarding both the consumer and the environ-



Now in test markets.

ment. The two-piece container has no side seam or double seam on the bottom, insuring product quality over longer periods of time.

For the retailer, the sidewall ribbing of the can adds strength and enhances dent resistance. The reshaped bottom eliminates shifting of cans during shipping and on the retail shelf, thus providing a neater, more uniform stacking appearance.

Food Service

The U.S. food service industry, which has more than doubled in volume during the last decade, is another area in which Hormel applies its production and marketing skills. Hundreds of Hormel vending, chopped and formed and frozen entree products have been designed to meet the special demands of food service operations ranging from hospitals, cafeterias and schools to industrial plants, restaurants and airlines.

A new line of chowder items, introduced in selected market tests in early 1977, are now showing sales potential on a national level. The four varieties, Hearty Seafood Chowder, Hearty Beef 'n Vegetable Chowder, Hearty Chicken 'n Corn Chowder and Hearty Ham 'n Potatoes Chowder, join an extensive array of single-service canned products designed specifically for vendors and caterers.

The Hormel hot food vending line, numbering 29 items, has adopted the same name and label design as the retail-marketed Short Orders line, thus unifying the 7½-oz. design concept for greater consumer recognition.

Product line additions, supported by regular market studies and consistent advertisements in the *American Automatic Merchandiser*, *Vending Times* and other trade journals,



A new line of chowder items.

have helped Hormel to reach a broader spectrum of the vending market. This, in turn, has led to the greatest sales volume in the history of Hormel vending operations.

Frozen prepared entrees, portion-packed in convenient aluminum steam table trays, also attained new sales levels in 1977. A variety of beef, combination beef, seafood and dairy, pork, poultry, and smoked and cured meat entrees are marketed to food service outlets, including several of the nation's largest airlines for in-flight dining services. Four new products introduced this year — Fish Almondine, Baked Chicken in Barbecue Sauce, Swedish Meat Balls and Smoked Beef Brisket



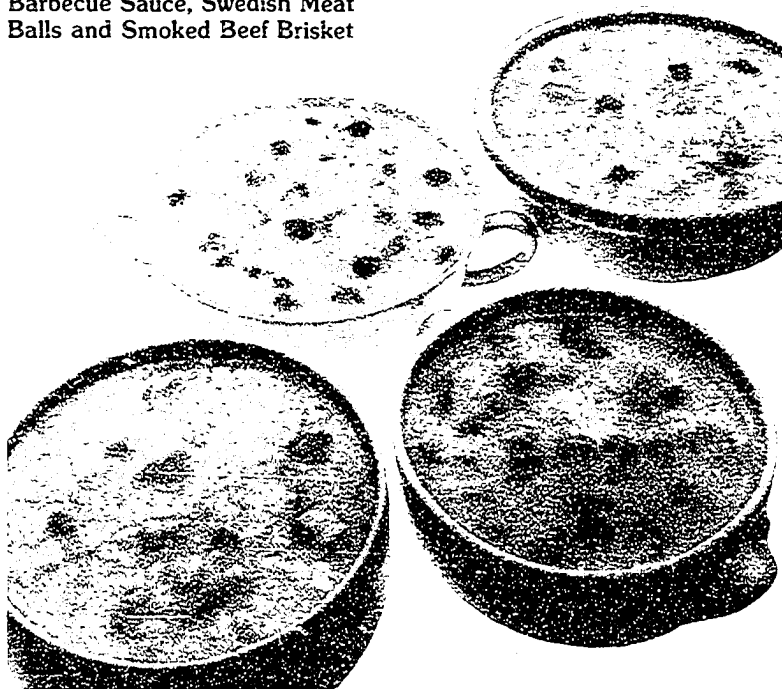
Fish Almondine.

in Barbecue Sauce — brings to 46 the number of frozen entrees now distributed nationally.

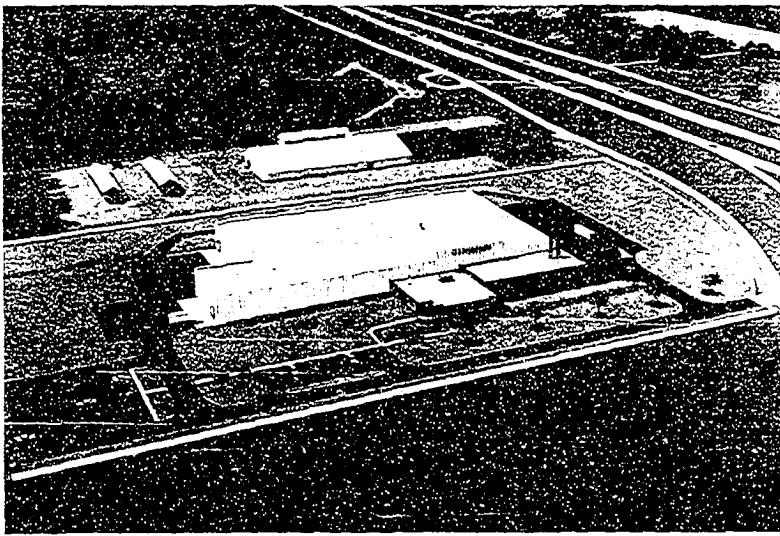
Sales of portion control frozen meats also provided encouraging increases. The uncooked or precooked, unbreaded or breaded portion control meats offer versatility and convenience to food service establishments.

Capital Expenditures

In addition to achieving record results in fiscal 1977, the Prepared Foods Group also in-



The Hormel chowder items were introduced in early 1977.



This Davenport, Iowa, bulk gelatin plant is now under construction.

vested substantially in future growth. Capital expenditures during the year focused on plant expansion and modernization programs designed to improve customer service and operating efficiencies.

The multi-million dollar Davenport, Iowa, bulk gelatin plant, now under construction, is currently the Company's largest capital commitment project. When completed, the 100,000 square foot facility will have an annual capacity of 15,000,000 pounds of bulk coarse mesh gelatin and 3,000,000 pounds of liquid collagen protein. The primary users of this gelatin will be

pharmaceutical houses where the product is used in the manufacture of hard and soft capsules for medicines.

The Company's Austin, Minn., and Fort Dodge and Ottumwa, Iowa, plants will be primary suppliers of the 100,000,000 pounds of pork skins needed annually for this expanded gelatin production. The building is divided into raw material preparation, wet processing, blending, storage and shipping areas. Operations will be conducted under strict quality control standards to insure a completely aseptic working environment.



Hormel gelatin has diversity of uses as an ingredient in other products.

The Davenport plant is scheduled for completion in late 1978. It is believed to be the newest and most modern gelatin facility built within the past one-quarter of a century.

Plant Additions

In late September, Hormel acquired a 73,575 square foot canning plant owned by Tillie Lewis Foods, Inc., in Stockton, Calif. This plant produced Dinty Moore Beef Stew, Hormel Chili, Hormel Tamales and Mary Kitchen Corned Beef Hash for many years under a custom canning agreement between the Company and the Tillie Lewis firm.

Modernization of this recently-acquired building is now underway. A 14,500 square foot cooler/freezer addition, designed as a holding area for vegetables, meats and other incoming raw materials, will be completed in late summer. A 28,000 square foot warehouse area, also under construction, will provide an additional 7,000,000 pounds of Grocery Products storage capacity which will further improve distribution efficiency to West Coast customers.

A second phase of the Stockton renovation program, scheduled later this year, consists of modernization of the existing plant area and construction of new office and welfare facilities.

A 45,500 square foot addition to the Grocery Products warehouse at the Atlanta, Ga., distribution plant was completed in November. A 51,000 square foot addition to the Beloit, Wis., canning plant is now under construction. Together, these capital investment projects will provide warehousing facilities for 20,000,000 pounds of product which will then improve distribution capabilities in the East-Central and Southeast areas of the U.S.

Corporate Profile

Geo. A. Hormel & Company is a federally-inspected food processor which slaughters livestock for processing into meat and meat products which are sold at the wholesale trade level.

The principal products of the Company are meat and meat products — boneless hams, sausage items, sliced bacon and luncheon meats — which are

sold fresh, frozen, cured, smoked, cooked or canned.

Hormel operates 20 plants for slaughtering and/or processing and has 12 distribution plants located along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii.

Hormel operates in international areas, including the Dominican Republic, the Phil-

ippines and Okinawa and in various European countries, primarily through Hormel International, a wholly-owned subsidiary.

The Company's products are sold in 50 states by salesmen operating in assigned territories coordinated from district sales offices located in most of the larger United States cities, and by brokers who handle carload lot sales.

Hormel employs over 8,700 people and has approximately 4,600 stockholders.

Officers and Directors

I. J. Holton, Austin
President
Director since February, 1961

Raymond J. Asp, Austin
Group Vice President
Prepared Foods Group
Director since August, 1969

Lee D. Housewright, Jr., Austin
Group Vice President
Meat Products Group
Director since August, 1969

Richard L. Knowlton, Austin
Group Vice President
Operations Group
Director since September, 1974

E. C. Alsaker, Austin
Vice President & Treasurer
Director since November, 1969

Bruce Corey, Austin
Vice President
Engineering & Planning
Director since February, 1960

John R. Furman, Austin
Vice President
Dry Sausage Division

Robert M. Gill, Austin
Vice President
Personnel & Industrial Relations
Director since August, 1970

Stanley E. Kerber, Austin
Vice President
Route Car Sales &
Distribution Plants

Clayton T. Kingston, Austin
Vice President
Pork Operations

Robert F. Potach, Austin
Vice President & Controller
Director since October, 1970

James A. Silbaugh, Austin
Vice President
Grocery Products Division

Donald S. Sorenson, Austin
Vice President
Beef Operations

Charles D. Nyberg, Austin
Secretary &
Director of Public Relations

Don J. Hodapp, Austin
Assistant Controller
Data Processing

Richard W. Schlange, Austin
Assistant Controller
Accounting

Walter B. Stevens, Austin
Assistant Treasurer
Finance

Robert J. Thatcher, Austin
Assistant Treasurer
Taxes

Clarence G. Adamy,
Alexandria, Va.
Food Industry Consultant
Former President
National Association of Food
Chains
Director since January, 1977

Sherwood O. Berg,
Brookings, S.D.
President
South Dakota State University
Director June, 1969-June, 1973,
Re-elected November, 1976

Donald R. Grangaard,
Minneapolis, Minn.
President & Chief Executive
Officer
First Bank System, Inc.
Director since July, 1974

Geri M. Joseph,
Minneapolis, Minn.
Contributing Editor
Minneapolis Tribune
Director since August, 1974



 **Hormel** 

FINANCIAL
SECTION

Common Stock

The common stock of the corporation (HRL) is listed on the American Stock Exchange.

Auditor

Ernst & Ernst
1800 First National Bank Building
120 South Sixth Street
Minneapolis, Minn. 55402

Transfer Agent

The First National Bank of Chicago
One First National Plaza
Chicago, Ill. 60670

Registrar

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Ill. 60690

Stockholder Inquiries

Communications concerning transfer requirements and lost certificates should be directed to the Transfer Agent. Communications concerning dividends and change of address should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P. O. Box 800, Austin, Minnesota 55912.

Notice of Annual Meeting

The Annual Meeting of the Company's stockholders will be held on Tuesday, January 31, 1978, in the Austin High School Auditorium. The meeting will convene at 8 p.m.

All stockholders are cordially invited to attend.

Form 10-K Annual Report

A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended October 29, 1977, will be provided to stockholders upon written request to the Corporate Secretary, Geo. A. Hormel & Company, P. O. Box 800, Austin, Minnesota 55912.

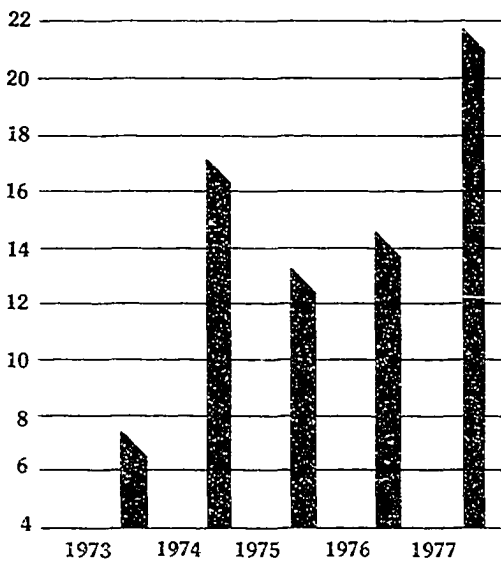
Financial Progress...

A Graphic Look

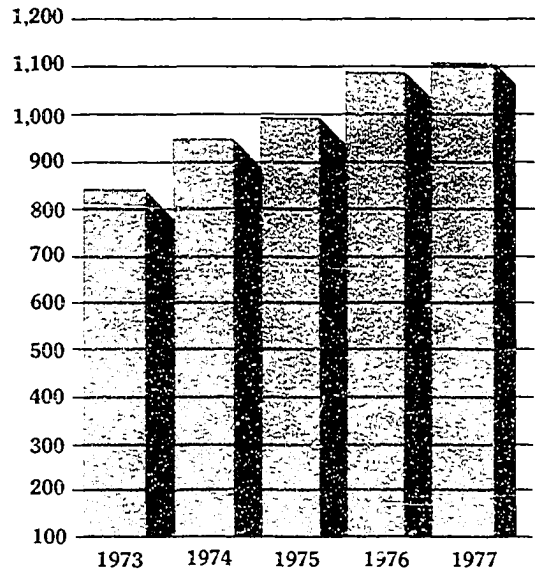
COMMON STOCK DATA

Fiscal Quarter	1977		1976	
	Cash Dividends Declared	Market Price Range	Cash Dividends Declared	Market Price Range
First Quarter	\$.28	\$21-26¼	\$.25	\$15¾-20
Second Quarter	.28	23¾-28¼	.25	16¾-19⅝
Third Quarter	.28	23¾-28½	.25	17¼-19⅞
Fourth Quarter	.28	24¼-29⅞	.25	18⅜-21⅝

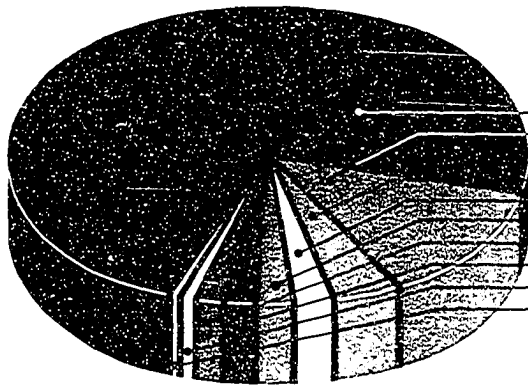
NET EARNINGS
(Millions of Dollars)



NET SALES
(Millions of Dollars)

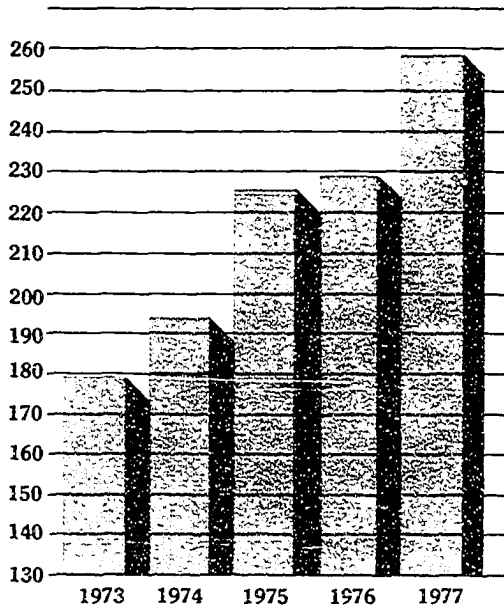


DISTRIBUTION OF SALES DOLLAR/1977

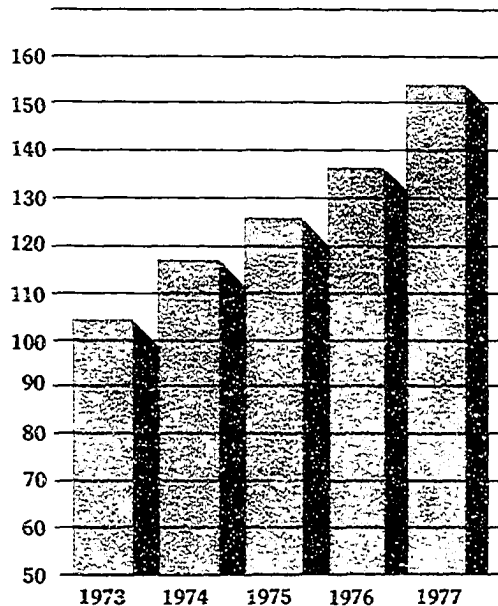


Cents - Sales Dollar	
Cost of Livestock, Supplies, etc	67 90¢
Wages and Salaries	14 11¢
Manufacturing, Selling and Other Expenses	6 04¢
Transportation Costs	3 39¢
Employee Benefits	3 21¢
All Taxes	2 10¢
Net Earnings	1 98¢
Depreciation	1 02¢
Interest Costs	25¢
Total	100 00

TOTAL ASSETS
(Millions of Dollars)



STOCKHOLDERS' INVESTMENT
(Millions of Dollars)



Ten Year Review

(In thousands of dollars)

OPERATIONS	1977	1976*
Net Sales	\$1,106,274	\$1,094,832
Net Earnings	21,951	14,717
Per Cent of Sales	1.98%	1.34%
Wage Costs	191,719	179,588
Total Taxes	23,276	14,127
Depreciation	11,312	10,697
<hr/>		
FINANCIAL POSITION		
Working Capital	\$ 79,253	\$ 63,957
Properties (net)	99,921	97,465
Total Assets	258,283	228,585
Stockholders' Investment	153,363	136,792
<hr/>		
PER SHARE OF COMMON STOCK		
Net Earnings	\$ 4.57	\$ 3.06
Dividends	1.12	1.00
Stockholders' Investment	31.93	28.48

*53 Weeks

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

1975	1974	1973	1972	1971	1970*	1969	1968
995,593	\$943,163	\$825,671	\$719,755	\$686,487	\$695,768	\$626,017	\$585,879
13,366	17,369	7,403	7,788	16,664	9,933	9,236	9,134
1.34%	1.84%	.90%	1.08%	2.43%	1.43%	1.48%	1.56%
167,049	151,052	129,419	129,277	127,775	116,921	104,325	98,519
13,102	18,094	8,717	9,431	19,053	12,648	12,260	11,833
9,140	7,667	7,125	6,417	5,435	4,918	3,830	3,578
64,350	\$ 48,659	\$ 34,256	\$ 39,275	\$ 43,646	\$ 37,818	\$ 39,339	\$ 40,497
85,398	74,392	67,481	60,178	51,841	45,683	38,767	32,211
224,488	193,696	179,950	149,468	153,144	129,416	115,788	108,484
126,879	117,932	104,654	101,187	96,175	83,081	76,480	70,220
\$ 2.78	\$ 3.62	\$ 1.54	\$ 1.63	\$ 3.50	\$ 2.09	\$ 1.94	\$ 1.92
.92	.84	.81	.78	.75	.70	.625	.4875
26.42	24.55	21.77	21.04	20.20	17.45	16.07	14.75

Statement of Consolidated Financial Position

	October 29, 1977	October 30, 1976
ASSETS		
CURRENT ASSETS		
Cash	\$ 7,671,882	\$ 9,576,620
Short-term marketable securities — at cost which approximates market	21,791,957	12,243,567
Accounts receivable, less allowance for doubtful accounts (1977 — \$265,000; 1976 — \$207,500)	50,838,009	49,225,189
Inventories of products, livestock, packages and supplies — Note C	73,843,524	56,172,526
Prepaid insurance and other expenses	1,101,201	828,129
TOTAL CURRENT ASSETS	155,246,573	128,046,031
INVESTMENTS AND OTHER ASSETS	3,115,789	3,073,348
PROPERTY, PLANT AND EQUIPMENT — NOTE B		
Land	2,668,216	2,367,578
Buildings	60,976,442	61,146,685
Equipment	116,040,976	101,238,319
Construction in progress — Note H	2,107,316	5,203,678
Allowance for depreciation (deduction)	(81,872,074)	(72,491,053)
	<u>99,920,876</u>	<u>97,465,207</u>
	<u>\$258,283,238</u>	<u>\$228,584,586</u>

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' INVESTMENT	October 29, 1977	October 30, 1976
CURRENT LIABILITIES		
Notes payable	\$ 794,176	\$ 951,048
Accounts payable and accrued expenses	65,001,954	57,898,747
Dividend payable November 15	1,344,912	1,200,815
Federal income taxes	8,675,777	3,866,797
Current maturities of long-term debt	177,000	172,000
TOTAL CURRENT LIABILITIES	75,993,819	64,089,407
LONG-TERM DEBT — less current maturities —		
Note D	28,226,000	27,703,000
DEFERRED INCOME TAXES — Note B	700,000	—
STOCKHOLDERS' INVESTMENT		
Preferred Stock, par value \$100 a share; authorized — 50,000 shares; issued — none		
Common Stock, par value \$1.875 a share; authorized — 6,000,000 shares; issued — 4,803,258 shares	9,006,109	9,006,109
Additional paid-in capital	2,761,377	2,761,377
Earnings reinvested in business	141,595,933	125,024,693
	<u>153,363,419</u>	<u>136,792,179</u>
	<u>\$258,283,238</u>	<u>\$228,584,586</u>

See notes to consolidated financial statements

Statement of Changes in Consolidated Stockholders' Investment

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	Common Stock	Additional Paid-in Capital	Earnings Reinvested in Business	Treasury Stock
Balance at October 25, 1975	\$9,015,484	\$2,852,002	\$115,111,344	\$(100,000)
Net earnings for the year			14,716,607	
Cash dividends declared — \$1.00 a share			(4,803,258)	
Retirement of treasury stock	(9,375)	(90,625)		100,000
Balance at October 30, 1976	9,006,109	2,761,377	125,024,693	—
Net earnings for the year			21,950,889	
Cash dividends declared — \$1.12 a share			(5,379,649)	
Balance at October 29, 1977	<u>\$9,006,109</u>	<u>\$2,761,377</u>	<u>\$141,595,933</u>	<u>\$ —</u>

See notes to consolidated financial statements

Statement of Consolidated Earnings

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	Fiscal Year Ended	
	October 29, 1977	October 30, 1976
Sales, less returns and allowances	\$1,106,274,633	\$1,094,831,609
Interest and other income	560,335	242,510
	<u>1,106,834,368</u>	<u>1,095,074,119</u>
Costs and expenses:		
Cost of products sold	948,191,739	964,190,825
Selling and delivery expenses	97,526,079	86,842,696
Administrative and general expenses	16,065,113	13,730,807
Interest	2,745,557	4,174,184
	<u>1,064,528,479</u>	<u>1,068,938,512</u>
EARNINGS BEFORE INCOME TAXES	42,305,889	26,135,607
Provision for income taxes — Note F	20,355,000	11,419,000
NET EARNINGS (Per share 1977 — \$4.57; 1976 — \$3.06)	<u>\$ 21,950,889</u>	<u>\$ 14,716,607</u>

See notes to consolidated financial statements

Statement of Changes in Consolidated Financial Position

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

	Fiscal Year Ended	
	October 29, 1977	October 30, 1976
Working capital at beginning of year	\$ 63,956,624	\$ 64,349,979
Additions:		
From operations:		
Net earnings for the year	21,950,889	14,716,607
Provision for depreciation	11,312,336	10,697,147
Deferred income taxes	700,000	—
	33,963,225	25,413,754
Proceeds from long-term debt	750,000	2,000,000
Carrying value of disposals of property, plant and equipment	96,488	65,894
Other	21,398	—
	34,831,111	27,479,648
Deductions:		
Payments and maturities of long-term debt	227,000	217,000
Additions to property, plant and equipment	13,885,891	22,830,617
Cash dividends on Common Stock	5,379,649	4,803,258
Increase in investments and other assets	42,441	22,128
	19,534,981	27,873,003
Increase (decrease) in working capital	15,296,130	(393,355)
Working capital at end of year	\$ 79,252,754	\$ 63,956,624
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	\$ (1,904,738)	\$ (8,809,922)
Short-term marketable securities	9,548,390	12,243,567
Accounts receivable	1,612,820	(2,673,629)
Inventories	17,670,998	(9,259,107)
Prepaid expenses	273,072	505,862
	27,200,542	(7,993,229)
Increase (decrease) in current liabilities:		
Notes payable	(156,872)	(4,960,868)
Accounts payable and accrued expenses	7,103,207	(4,326,220)
Dividend payable	144,097	96,066
Federal income taxes	4,808,980	1,419,148
Current maturities of long-term debt	5,000	172,000
	11,904,412	(7,599,874)
Increase (decrease) in working capital	\$ 15,296,130	\$ (393,355)

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

October 29, 1977 and October 30, 1976

Note A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. All significant intercompany accounts, transactions, and profits have been eliminated in consolidation. Investments in foreign companies (the Company's investment does not exceed 50% in any foreign operating company) are included in the financial statements at the Company's equity therein. Exchange adjustments (immaterial in amount in each year) are included in income as they occur. The excess of the cost of acquisitions over the Company's equity in net assets acquired is not material in amount and is being amortized over periods of ten to forty years.

Inventories: Inventories are valued at the lower of cost or replacement market. Livestock and the materials portion of products are determined by the first-in, first-out method. Inventoriable expenses, packages and supplies are determined by the last-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets (see Note B). Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful life of the assets are capitalized.

Pension Plans: The Company has several pension plans covering substantially all of its employees. The Company's policy is to fund pension costs accrued which includes amortization of prior service costs over a period of thirty years from the date of inception or date of amendment of the plans.

Income Taxes: Provision is made in the financial statements for deferred income taxes arising from timing differences in accounting for depreciation for tax and financial reporting purposes. Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for federal income taxes.

Earnings Per Share: Earnings per share of Common Stock are based on the weighted average number of shares outstanding during the year.

Fiscal Year: The Company's fiscal year ends on the last Saturday in October. The fiscal year ended October 29, 1977 consisted of 52 weeks; fiscal year ended October 30, 1976 consisted of 53 weeks.

Notes to Consolidated Financial Statements (CONTINUED)

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

Note B — CHANGE IN ACCOUNTING METHOD

Through fiscal 1976, the Company provided for depreciation of buildings by the straight-line method and for depreciation of equipment by an accelerated method approximating the double-declining balance method. Effective October 31, 1976, the Company changed its method of depreciating newly-acquired equipment on a prospective basis to the straight line method in order to conform to prevailing industry practice. The effect of this change was to increase earnings before income taxes by \$1,400,000, and net earnings by \$700,000 (\$ 15 per share) in fiscal 1977.

Note C — INVENTORIES

Inventoriable expenses, packages and supplies amounting to approximately \$15,800,000 at October 29, 1977, and \$14,000,000 at October 30, 1976, are stated at cost determined by the last-in, first-out method, and are \$4,300,000 and \$2,500,000 lower in the respective years than such inventories determined under the first-in, first-out cost method.

Note D — LONG-TERM DEBT

Long-term debt consists of:	October 29, 1977	October 30, 1976
9% Notes	\$25,000,000	\$25,000,000
Capitalized leases	3,403,000	2,875,000
	<u>28,403,000</u>	<u>27,875,000</u>
Less current maturities	177,000	172,000
	<u>\$28,226,000</u>	<u>\$27,703,000</u>

The 9% Notes are due in 1985 and contain certain provisions and restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt. The Company is in compliance with the provisions and restrictions of the Note Agreement.

Note E — PENSION PLANS

Contributions to the Company's pension plans for 1977 and 1976 were \$12,370,000 and \$10,250,000, respectively. Approximately two-thirds of the pension costs relate to union plans. Under the terms of a three year union contract taking effect in 1977, pension benefits will increase 51% by 1979 spread evenly over the three year period. The actuarially computed value of vested benefits for all plans exceeded the pension fund assets at October 29, 1977 by approximately \$37,700,000.

Notes to Consolidated Financial Statements (CONTINUED)

GEO. A. HORMEL & COMPANY AND SUBSIDIARIES

Note F — INCOME TAXES

The following summarizes the significant differences between income taxes for financial reporting purposes and the statutory federal income tax rate:

	Fiscal Year Ended	
	October 29, 1977	October 30, 1976
48% of pre-tax earnings	\$20,307,000	\$12,545,000
Plus state and local income taxes, net of federal tax benefit	862,000	493,000
Other items	856,000	623,000
	22,025,000	13,661,000
Less investment credit	1,670,000	2,242,000
Provision for income taxes	\$20,355,000	\$11,419,000
Effective rate	48.1%	43.7%

Note G — LEASES

Rental expense and future lease commitments are not material.

Note H — CONSTRUCTION IN PROGRESS

The estimated cost to complete construction in progress at October 29, 1977 is approximately \$16,000,000.

Note I — REPLACEMENT COST INFORMATION (UNAUDITED)

The impact of inflation on the Company's inventories is not significant because of their rapid turnover. The current replacement of productive capacity, however, would require a substantially greater capital investment than originally made to acquire those assets. The impact of inflation on the replacement of productive capacity would be at least partially offset by improved efficiency in plant layout and lower operating costs.

Estimated replacement cost information for inventories and productive capacity as of October 29, 1977, and the related effect on the cost of products sold and depreciation expense for the year, are disclosed in the Company's annual report on Form 10-K to be filed with the Securities and Exchange Commission.

Note J — QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the year ended October 29, 1977 (dollars in thousands).

Quarter	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
First	\$ 269,876	\$ 44,219	\$ 7,619	\$1.59
Second	271,853	41,463	5,851	1.21
Third	273,979	38,324	4,456	.93
Fourth	290,566	34,076	4,023	.84
	<u>\$1,106,274</u>	<u>\$158,082</u>	<u>\$21,951</u>	<u>\$4.57</u>


Fourth quarter results reflect an adjustment to net earnings of approximately \$600,000 to provide for the loss on disposal of a foreign subsidiary. The provision is included in general and administrative expenses.

Report of Ernst & Ernst, Independent Auditors

To the Stockholders and
Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statement of consolidated financial position of Geo. A. Hormel & Company and subsidiaries as of October 29, 1977 and October 30, 1976, and the related statements of consolidated earnings, changes in stockholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Geo. A. Hormel & Company and subsidiaries at October 29, 1977 and October 30, 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of computing depreciation of newly-acquired assets as described in Note B to the financial statements.

Ernst & Ernst


Minneapolis, Minnesota
November 22, 1977

TRADEMARKS IN THIS ANNUAL REPORT

Trademarks of Geo. A. Hormel & Company appearing in this 1977 Annual Report include the following:

BLACK LABEL® bacon	MARY KITCHEN® corned beef hash
BURGERMEISTER® brand salami	MARY KITCHEN margarine
COOKBOOK shortening	MARY KITCHEN® roast beef hash
CURE/81® ham	PILLOW PACK pepperoni
CUREMASTER® family ham	RANGE BRAND® bacon
DILUSSO® genoa	RANGE BRAND WRANGLERS smoked franks
DINTY MOORE® beef stew	SHORT ORDERS
HORMEL® chili	SPAM® luncheon meat
HORMEL® tamales	TATER DOGS batter wrapped wieners
LAYOUT PACK® wide shingled bacon	TENDER CHUNK ham
LITTLE SIZZLERS® pork sausage	